

MINUTES
Highway Expansion and Extension Loan Program

Advisory Committee Meeting
October 3, 2000

Committee Members Present:

Victor Mendez
Cliff Potts
Bruce Hilby

Gary Magrino
Jeff Martin
Tami Ryall

Members Absent: Paul Schwartz

Others Present:

Jim Redpath, Attorney General's Office
John McGee, ADOT Chief Financial Officer
Shawn Dralle, ADOT
Bob Miller, ADOT
Tim Ahrens, PAG

Vicki Tsutsumida, FHWA
Anna-Marie Perry, ADOT
Steve Schaefer, ADOT
Chuck Eaton, ADOT
Dick Hileman, State Transportation Board

Call to Order

The meeting was called to order by Victor Mendez at 1:20 p.m. A quorum was present.

Mr. Mendez reminded the Committee because this was a study session, there would be no action taken.

Ms. Dralle briefly reviewed the contents of the members' information packets. Ms. Dralle reminded the Members they discussed the length of loan terms at the last meeting. Mr. McGee reiterated his position that the longer the repayment period is, the fewer loans can be made because of less turnover in the funds. He said the assumption that the state would have \$600 million is based on the assumption the loans would be turned over fairly rapidly.

Ms. Dralle suggested the Committee should either remove the 5 year payback issue from the table or go deeper into the issue and decide if and when to change the statute. Turning back to the packet, she noted the federal statute is much broader than the state statute and suggested focusing on the unique features of the state law makes more sense. meeting.

Mr. Mendez asked what the implications would be of the Committee agreeing to leave the maturity length as it is. Mr. McGee recommended the Committee reaffirm their intention to maintain the maturity length as it is for the foreseeable future. He said it might be appropriate to reconsider the issue once they get past 2004.

Mr. Magrino stated he does not mind having a short maturity, but does not want to be forced to turn down a viable project because of the restriction. Ms. Dralle explained that Arizona's statute says if the money being loaned out came from the federal grant, it can be repaid within

ten years from the time construction is completed. She said, if the source of the money is local, it has to be repaid within five years after completion of construction.

Mr. Mendez said if they changed the maturity length, they need to establish criteria to keep decisions regarding individual maturity dates from appearing arbitrary. Mr. Ahrens suggested that if a city wanted to go outside the five-year timeframe, it would have to promise its own funds, not program funds.

Mr. Hilby asked if they have ever explored guaranteeing the loans, thereby, not having to put money into the project. He suggested it would be a way to expand capacity without actually spending money. Mr. McGee said both state and federal laws allow for providing financial assistance, however, to date the state has not done or had any requests for such assistance. He said they would have to do a lot of risk assessment if they were to guarantee a loan. Ms. Ryall asked if such a guarantee would take a statutory change. Ms. Dralle explained they can provide loan assistance, however, the challenge is to find a circumstance where it makes economic sense to do so. She suggested the state could offer interim backing until a city or town can get their own bond program underway, noting Flagstaff currently has a similar situation.

The meeting recessed for a short break.

Mr. Mendez said the Committee's overriding theme is what avenues they can pursue to help cities build infrastructure. Mr. McGee suggested there might be circumstances where this type of guarantee would make sense, however, they would have to be very specific in the type of credit the state would be guaranteeing. He said for anyone to accept that type of a loan guarantee, the program and fund would have to be rated by the bond rating agencies. Ms. Dralle said while they should keep financial assistance in the background, the program does not have an adequate track record to shift its focus off loans. She suggested financial assistance might be effective with Native American tribes.

Mr. Mendez summarized the discussion stating there might be other options to pursue in the future, however the Committee needs more time to work on the loan side to make it an efficient and effective program.

Mr. Hilby asked if there is any limitation on the money they would designate as having come from interest. Ms. Dralle said their interpretation has been that both interest paid and interest earned is unrestricted, however, it retains its designation as state or local funding when it is loaned out again. Ms. Tsutsumida said Federal Highways Administration's interpretation was the same.

Ms. Dralle mentioned the geographical percentages and asked Committee members for their interpretation of the intent of the legislation and whether they would want to propose changes to the legislation at some future date. She explained that loans to Mesa and Chandler loans are not counted in the 50/25/25 split, however, the repayments are calculated into the overall acceleration.

Mr. Martin asked if Phoenix could issue a project advancement note for its HOV project. Ms. Dralle said they could. Mr. Martin suggested they encourage larger cities to look at that option for funding.

Mr. Mendez stated the resource allocation clearly focused on MAG, PAG and the other counties. In regards to the HOV S.R. 51, he asked if the \$6.5 million includes sound walls.

Mr. Potts said the Committee has struggled with the funding formula, that if they did not have any latitude they needed to follow the spending formula set out by the legislature in Senate Bill 1201. Mr. Martin said they have no desire to change the formulas.

Mr. McGee said he agreed with staff that it was not the intent of the 50/25/25 to inhibit loaning funds for a worthy project because additional matching projects in the other two areas cannot be found. He said it may be too early in the program to look at changing the statute.

Mr. Magrino stated they have no standard measurement for production and asked what is being done to meet the 25 percent goal. Ms. Dralle said the two charts given to members reflect what they believe are appropriate performance measures. She explained that, during the first couple years, counting the number of loans and the amount of those loans were the only performance measures they had. She said they did not feel they were adequate measures because they did not compare them against anything else. She said the fund balance as a percent capitalization performance measure looks at how much of the money actually goes out in the form of loans. She explained their fund balance, as a percentage of capitalization, is high in 2001 because they are banking funds for loans that have been outlined over the next four years. She said they are hoping to use best practices information collected by FHWA. She said, while they hope to gain from other programs, she believes other programs will be looking at Arizona to see what they have been doing.

Mr. Hilby asked if another marketing approach could be taken, suggesting they sponsor a forum between County Engineers or other county transportation people and District Engineers to identify critical issues. Mr. Potts said the issue is who has the best path to bring projects forward, that Department's District Engineers would be the individuals best able to bring projects forward. Mr. Miller suggested the HELP committee approach the County Engineers annual or quarterly meetings to present what has been done. Ms. Dralle said they are working on being invited to those meetings. Mr. Potts recommended approaching the Council's of Government, explaining that is where regional transportation plans are formulated.

Mr. Martin expressed concern that counties will come to HELP rather than issue HURF bonds since county road projects are now eligible for funding through HELP. He said this issue could become a problem in the future and asked how they should deal with it. He expressed his opinion that counties should still issue their own debt, leaving the Committee to deal with roads of regional significance. Ms. Dralle pointed out that a five-year maturity date is not an attractive substitute for a HURF bond, which can go for twenty years. She noted that a project also has to be in a TIP to be eligible for a HELP loan.

Mr. Mendez suggested staff look at alternatives for better marketing the program. Ms. Dralle agreed to come back to the next meeting with an outreach plan for further discussion. Mr. Mendez said they now feel comfortable with the program and it is now time to actively look for the market. Mr. McGee said a lot of outreach efforts have been done over the past two or three years, although, he agreed more may be necessary to make sure people truly understand how they can benefit from the program. He acknowledged the fact that they are showing high balances for 2002 and 2003 and said they have discussed looking at the overall financing structure for the MAG Freeway program, including RARF, HURF and SIB borrowings. He explained they are looking at whether it would make more sense to substitute some of the HELP borrowings for other borrowings they were planning on doing to keep the program on track and to get the balances down.

Ms. Dralle noted the next meeting would be held November 7, 2000. She said they will likely act on the City of Phoenix Squaw Peak IGA and possibly have a statewide application for more general acceleration of the statewide program.

Mr. Mendez encouraged everyone to attend the stakeholders meeting on November 15 at the Human Resources Development Center, 1130 North 22nd Avenue. He suggested this would be a good opportunity to educate others on the HELP program.

Meeting adjourned at 3:10 p.m.